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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

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FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01-01-07 AND ENDING 12-31-07
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Lincoln Financial Advisors Corporation

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

1300 South Clinton Street, Suite 150

(No. and Street)

Fort Wayne Indiana 46802-3506

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Keith J. Ryan

260-455-6244

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Ernst & Young LLP

(Name - of individual, state last, first, middle name)

110 West Berry Street, Suite 2300

Fort Wayne

IN

46802

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

☒ Certified Public Accountant

☐ Public Accountant

☐ Accountant not resident in United States or any of its possessions.

PROCESSED

MAR 25 2008

THOMSON
FINANCIAL

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*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

SEC 1410 (7-00)

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OATH OR AFFIRMATION

I, Keith J. Ryan, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statements and supporting schedules pertaining to the firm of Lincoln Financial Advisors Corporation, as of December 31, 20 07, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

Keith J. Ryan
Signature

Chief Financial Officer
Title

Janet K. Myers
Notary Public

This report** contains (check all applicable boxes):

- ☒ (a) Facing page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Operations.
- ☒ (d) Statement of Cash Flows.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims or Creditors.
- ☒ (g) Computation of Net Capital.
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- ☒ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A or Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- ☐ (o) Schedule of Segregation Requirements and Funds in Segregation for Customers Trading on U.S. Commodity Exchanges.
- ☐ (p) Statement of Secured Amount and Funds Held in Separate Accounts for Foreign Futures and Options Customers Pursuant to Commission Regulation 30.7.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C.

ANNUAL AUDITED REPORT

DATE – DECEMBER 31, 2007

LINCOLN FINANCIAL ADVISORS CORPORATION

(Name of Respondent)

1300 South Clinton Street, Fort Wayne, IN 46802-3506

(Address of principal executive office)

Keith J. Ryan

Vice President,

Chief Financial Officer and Controller

Lincoln Financial Advisors Corporation

1300 South Clinton Street

Fort Wayne, IN 46802-3506

(Name and Address of person authorized to receive notices and communications from the Securities and Exchange Commission)

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

**Lincoln Financial Advisors Corporation
Years Ended December 31, 2007 and 2006
With Report and Supplementary Report of
Independent Registered Public Accounting Firm**

Lincoln Financial Advisors Corporation
Consolidated Financial Statements and Supplementary Information
Years Ended December 31, 2007 and 2006

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Report of Independent Registered Public Accounting Firm

The Board of Directors
Lincoln Financial Advisors Corporation

We have audited the accompanying consolidated statements of financial condition of Lincoln Financial Advisors Corporation (an indirect, wholly owned subsidiary of Lincoln National Corporation) and its subsidiary as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in stockholder's equity, and cash flows for the years then ended. These financial statements are the responsibility of management of Lincoln Financial Advisors Corporation. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lincoln Financial Advisors Corporation and its subsidiary at December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the accompanying schedules is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ernst & Young LLP

February 22, 2008

Lincoln Financial Advisors Corporation

Consolidated Statements of Financial Condition

	December 31	
	2007	2006
Assets		
Cash and cash equivalents	\$ 87,244,669	\$ 70,442,854
Receivables:		
Commissions and fees	40,466,878	34,548,383
Affiliates	—	788,665
Deferred income tax benefit	4,314,569	5,382,140
Prepaid expenses	1,036,647	1,546,695
Other assets	517,628	235,300
Property and equipment:		
Computer and software costs	1,174,098	1,562,484
Furniture and equipment	2,171,317	2,163,153
	<u>3,345,415</u>	<u>3,725,637</u>
Less accumulated depreciation	(2,018,344)	(1,888,258)
Net property and equipment	<u>1,327,071</u>	<u>1,837,379</u>
Total assets	<u><u>\$ 134,907,462</u></u>	<u><u>\$ 114,781,416</u></u>
Liabilities and stockholder's equity		
Payable to vendors	\$ 931,487	\$ 1,465,361
Payable to affiliates	16,521,510	13,378,591
Deferred revenue	3,590,206	4,049,096
Accrued commissions	24,525,817	20,186,953
Accrued compensation and benefits	10,991,781	9,175,249
Other liabilities	4,221,577	7,831,701
Total liabilities	<u>60,782,378</u>	<u>56,086,951</u>
Stockholder's equity:		
Common stock, \$100 par value:		
Authorized, issued, and outstanding shares – 135,000	500,000	500,000
Additional paid-in capital	12,423,642	9,066,849
Retained earnings	61,201,442	49,127,616
Total stockholder's equity	<u>74,125,084</u>	<u>58,694,465</u>
Total liabilities and stockholder's equity	<u><u>\$ 134,907,462</u></u>	<u><u>\$ 114,781,416</u></u>

See accompanying notes.

Lincoln Financial Advisors Corporation

Consolidated Statements of Income

	Year Ended December 31	
	2007	2006
Revenues:		
Commissions and fees from third parties	\$ 269,543,568	\$ 221,951,657
Commissions and fees from affiliates	155,751,072	148,400,067
Interest	4,466,107	3,301,821
Total revenues	429,760,747	373,653,545
Expenses:		
Commissions and agency expenses	260,126,141	208,988,519
Service charges from affiliates	126,647,107	111,588,348
Salaries, wages, and benefits	17,630,901	19,386,062
Licenses and fees	1,389,874	1,017,697
Legal and professional	912,772	5,413,546
Office expenses	2,052,098	2,350,056
Other general and administrative expenses	1,302,883	1,596,446
Total expenses	410,061,776	350,340,674
Income before income taxes	19,698,971	23,312,871
Income taxes	7,625,145	9,248,008
Net income	\$ 12,073,826	\$ 14,064,863

See accompanying notes.

Lincoln Financial Advisors Corporation

Consolidated Statements of Changes in Stockholder's Equity

	Year Ended December 31	
	2007	2006
Common stock:		
Balance at beginning and end of year	\$ 500,000	\$ 500,000
Additional paid-in capital:		
Balance at beginning of year	9,066,849	4,856,510
Share-based payment expense	3,356,793	4,210,339
Balance at end of year	12,423,642	9,066,849
Retained earnings:		
Balance at beginning of year	49,127,616	35,062,753
Net income	12,073,826	14,064,863
Balance at end of year	61,201,442	49,127,616
Stockholder's equity at end of year	<u>\$ 74,125,084</u>	<u>\$ 58,694,465</u>

See accompanying notes.

Lincoln Financial Advisors Corporation

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2007	2006
Operating activities		
Net income	\$ 12,073,826	\$ 14,064,863
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Deferred income tax expense	1,934,979	432,739
Loss on disposal of furniture and equipment	59,092	41,442
Depreciation	541,724	536,821
Changes in operating assets and liabilities:		
Receivables:		
Commission and fees	(5,918,495)	(981,159)
Affiliates	788,665	7,741,403
Prepaid expenses	510,048	(694,703)
Other assets	(282,328)	38,190
Payable to vendors	(533,874)	840,749
Payable to affiliates	3,142,919	(23,039,394)
Deferred revenue	(458,890)	588,771
Accrued commissions	4,338,864	80,987
Accrued compensation and benefits	1,816,532	(188,027)
Other liabilities	(3,610,124)	412,596
Cash provided by (used in) operating activities	14,402,938	(124,722)
Investing activities		
Sale of common stock	—	16,100
Proceeds from sale of furniture and equipment	42,660	89,163
Purchase of property and equipment	(133,168)	(616,414)
Cash used in investing activities	(90,508)	(511,151)
Financing activities		
Share-based payment expense	2,489,385	3,179,950
Cash provided by financing activities	2,489,385	3,179,950
Increase in cash and cash equivalents	16,801,815	2,544,077
Cash and cash equivalents at beginning of year	70,442,854	67,898,777
Cash and cash equivalents at end of year	\$ 87,244,669	\$ 70,442,854
Noncash transactions		
Executive stock option tax benefit	\$ 867,408	\$ 1,030,389

See accompanying notes.

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Lincoln Financial Advisors Corporation
Notes to Consolidated Financial Statements

December 31, 2007

1. Organization and Accounting Policies

Description of Business

The accompanying consolidated financial statements include Lincoln Financial Advisors Corporation (LFA) and its wholly owned subsidiary, LFA Management Corporation (LFAMC). LFA is a registered broker-dealer and investment advisor engaged principally in the distribution of securities, including certain mutual funds, limited partnerships, and equity and fixed income securities. LFA is licensed to engage in broker-dealer and investment advisor activity throughout the United States. LFAMC is a management company incorporated in 2004 for the purpose of providing LFA with executive management services and corporate governance. All intercompany accounts and transactions are eliminated in consolidation. LFA is a wholly owned subsidiary of The Lincoln National Life Insurance Company (LNL), which is a wholly owned subsidiary of Lincoln National Corporation (LNC).

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States. These financial statements comply with the requirements of the Securities and Exchange Commission (SEC) pertaining to the Financial and Operational Combined Uniform Single (FOCUS) Report. However, the financial information in the FOCUS Report is presented on an unconsolidated basis.

Use of Estimates

The preparation of the consolidated financial statements of LFA requires management to make estimates and assumptions that affect amounts reported in the financial statements and the accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

Cash and Cash Equivalents

Cash and cash equivalents, which are carried at cost, include all highly liquid debt instruments purchased with a maturity of three months or less, and therefore, the recorded value approximates fair value. Cash of \$3,400,000 as of December 31, 2007 and 2006, has been segregated in a special bank account for the benefit of customers under Rule 15c3-3 of the Securities Exchange Act of 1934.

Lincoln Financial Advisors Corporation

Notes to Consolidated Financial Statements (continued)

1. Organization and Accounting Policies (continued)

Commission Revenue and Expense

Commission revenue for customers' securities transactions and related commission expenses are recorded on a settlement-date basis, which does not deviate materially from a trade-date basis. Asset-based revenue and related commission expenses are recorded as earned based on a contractual percentage of customer deposits. Wrap fee income, also referred to as assets under management fee income, is received one quarter in arrears. An accrual is recorded for fee income, and a corresponding accrual is recorded for the commission expense to be paid on the fee income.

Income Taxes

LFA files consolidated federal income tax returns with LNL and LNC. Pursuant to an intercompany tax-sharing agreement with LNL, LFA provides for income taxes on a separate return filing basis. The tax-sharing agreement also provides that LFA will receive benefit for net operating losses, capital losses, and tax credits, which may not be usable on a separate return basis to the extent such items may be utilized in the consolidated federal income tax returns of LNC.

Property and Equipment

All fixed assets, including furniture and fixtures, leasehold improvements, data processing equipment, and computer software are carried on the basis of cost, and depreciation is computed thereon based on the estimated service lives of the assets using the straight-line method.

Deferred Revenue

Cash received in advance for financial planning contracts is recorded as deferred revenue until delivery of the financial plan to the respective customer.

Reclassification

Certain amounts in the 2006 financial statements have been reclassified to conform with the 2007 presentation. These reclassifications had no effect on stockholder's equity, net income, or net capital previously reported.

Lincoln Financial Advisors Corporation

Notes to Consolidated Financial Statements (continued)

2. Federal Income Taxes

Income tax expense consists of the following:

	Year Ended December 31	
	2007	2006
Federal	\$ 6,395,887	\$ 7,332,728
State	1,229,258	1,915,280
	<u>\$ 7,625,145</u>	<u>\$ 9,248,008</u>

Income tax expense differs from the federal tax rate of 35% primarily as a result of state taxes.

Significant components of LFA's deferred tax assets and liabilities are as follows:

	2007	2006
Deferred tax assets:		
Pensions, postretirement benefit liabilities, and other employee benefit liabilities	\$ 3,198,656	\$ 3,198,227
Accrued liabilities	969,914	2,153,187
Other	148,308	32,035
Total deferred tax assets	<u>4,316,878</u>	<u>5,383,449</u>
Deferred tax liabilities	2,309	1,309
Net deferred tax asset	<u>\$ 4,314,569</u>	<u>\$ 5,382,140</u>

Income taxes paid (refunds received) amounted to \$10,978,469 in 2007 and \$(232,822) in 2006. Income tax expense includes a deferred income tax expense of \$1,934,979 and \$432,739 in 2007 and 2006, respectively. The deferred income tax asset consists principally of tax benefits associated with retirement benefit accruals and other currently nondeductible accrued liabilities. Current federal income taxes payable of \$571,652 and \$4,495,770 at December 31, 2007 and 2006, respectively, are included in amounts due to affiliates.

Lincoln Financial Advisors Corporation

Notes to Consolidated Financial Statements (continued)

3. Agreements and Transactions With Affiliates

Service charges are allocated to LFA by certain affiliates for corporate and administrative services provided. Allocations include, but are not limited to, service charges related to human resource administration, print and distribution, legal services, compliance, and communication services. Total service charge allocations were \$2,825,023 and \$7,041,228 in 2007 and 2006, respectively.

Effective October 1, 2003, in order to be compliant with the National Association of Securities Dealers (NASD) Notice to Members 03-63 regarding expense-sharing agreements and to better match expenses with related securities revenue, LFA entered into a series of Master Services Agreements with its affiliated agency companies. In compliance with these agreements, LFA identified securities-related expenses historically paid and reported by affiliated Lincoln agency companies. These expenses include, but are not limited to, officer compensation and benefits, compliance services, and field as well as home office occupancy and operations. These expenses are identified and charged to LFA on a monthly basis by the affiliated agency companies. LFA incurred \$104,076,732 and \$90,021,848 of expenses in 2007 and 2006, respectively. In its continued effort to comply with Notice to Members 03-63, LFA entered into a similar Master Service Agreement with LNL's Employer Markets division (EM) which was effective January 1, 2004. Expenses related to the sale of EM products that result in LFA revenue are identified and charged to LFA on a monthly basis by EM. LFA incurred \$19,745,352 and \$14,525,272 of EM-related expenses in 2007 and 2006, respectively. These Master Service Agreement expenses are reported in service charges from affiliates on the consolidated statements of income.

4. Contingencies

There continues to be a significant amount of federal and state regulatory activity in the industry relating to numerous issues, including, but not limited to, variable annuity sales practices and marketing to seniors. Like others in the industry, LFA has received inquiries, including requests for information and/or subpoenas from various authorities, including the SEC and the Financial Industry Regulatory Authority ("FINRA"), as well as notices of potential proceedings from the SEC and FINRA. LFA is in the process of responding to, and in some cases has settled or is in the process of settling, certain of these inquiries and potential proceedings. LFA continues to cooperate fully with such authorities.

Regulators also continue to focus on replacement and exchange issues. Under certain circumstances, companies have been held responsible for replacing existing policies with policies that were less advantageous to the policyholder. LFA's management continues to monitor compliance procedures to minimize any potential liability. Due to the uncertainty surrounding all

Lincoln Financial Advisors Corporation

Notes to Consolidated Financial Statements (continued)

4. Contingencies (continued)

of these matters, it is not possible to provide a meaningful estimate of the range of potential outcomes; however, it is management's opinion that future developments will not materially affect the consolidated financial position of LFA.

LFA is also involved in various pending or threatened legal proceedings. In some instances, these proceedings include claims for unspecified or substantial punitive damages and similar types of relief in addition to amounts for alleged contractual liability or requests for equitable relief. After consultation with legal counsel and a review of available facts, it is management's opinion that these proceedings ultimately will be resolved without materially affecting the consolidated financial position of LFA.

Based on guidance provided by LNC's Legal Counsel, LFA has established legal contingency reserves of \$2,771,184 and \$6,026,932 for 2007 and 2006, respectively. This reserve is reported as a component of other liabilities on the consolidated statement of financial condition.

5. Net Capital Requirements

LFA is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined by Rule 15c3-1, may not exceed 15 to 1. The minimum net capital requirement for LFA at December 31, 2007, was \$3,637,166. At December 31, 2007, LFA had net capital of \$36,470,457, which was \$32,833,291 in excess of its required net capital. LFA's net capital ratio was 1.50 to 1.

Supplementary Information

Lincoln Financial Advisors Corporation

Schedule I

Computation of Net Capital Pursuant to Rule 15c3-1
of the Securities and Exchange Commission

December 31, 2007

Net capital

Total stockholder's equity	\$ 74,125,084
Deduct total nonallowable assets and other deductions	<u>37,654,627</u>
Net capital	<u>\$ 36,470,457</u>

Computation of aggregate indebtedness

Total aggregate indebtedness	<u>\$ 54,557,493</u>
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Ratio aggregate indebtedness to net capital	<u>149.6%</u>
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Computation of basic net capital requirement

Net capital requirement (greater of \$250,000 or 6-2/3% of aggregate indebtedness)	<u>\$ 3,637,166</u>
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Excess net capital	<u>\$ 32,833,291</u>
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Excess net capital at 1,000%	<u>\$ 31,014,708</u>
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Lincoln Financial Advisors Corporation

Schedule II

Computation for Determination of Reserve Requirements
Pursuant to Rule 15c3-3 of the Securities and Exchange Commission

December 31, 2007

Credit balances

Free credit and other credit balances

\$ 434,446

Total credit items

\$ 434,446

Debit balances

Secured customer debit balances

Less 1%

\$ -

Total debit items

\$ -

Excess of total credits over total debits

\$ 434,446

Required deposit

\$ 434,446

Lincoln Financial Advisors Corporation

Schedule III

Information Relating to Possession or Control Requirements
Pursuant to Rule 15c3-3 of the Securities and Exchange Commission

December 31, 2007

Market valuation and number of items:

- | | |
|--|--|
| 1. Customers' fully paid securities and excess margin securities not in LFA's possession or control as of December 31, 2007 (for which instructions to reduce to possession or control had been issued, but for which the required action was not taken by LFA within the time frames specified under Rule 15c3-3. | \$ <u> — </u> |
| A. Number of items. | <u> — </u> |
| 2. Customers' fully paid securities and excess margin securities for which instructions to reduce to possession or control had not been issued as of December 31, 2007, excluding items arising from "temporary lags which result from normal business operations" as permitted under Rule 15c3-3. | \$ <u> — </u> |
| A. Number of items. | <u> — </u> |

Lincoln Financial Advisors Corporation

Statement Pursuant to SEC Rule 17a-5(d)(4)

December 31, 2007

There were no material differences between the Computation of Net Capital Pursuant to SEC Rule 15c3-1 and the Computation for Determination of Reserve Requirements Pursuant to SEC Rule 15c3-3 included in the accompanying supplementary information and the computation included in the LFA's corresponding unaudited Form X-17a-5, Part II filing as of December 31, 2007.

The audited financial statements are presented on a consolidated basis; however, the accompanying net capital calculation is presented based on LFA's unconsolidated financial information.

Supplementary Report

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Supplementary Report of Independent Registered Public Accounting Firm on Internal Control Required by SEC Rule 17a-5

The Board of Directors
Lincoln Financial Advisors Corporation

In planning and performing our audit of the consolidated financial statements of Lincoln Financial Advisors Corporation (the Company) as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company, including consideration of control activities for safeguarding securities. The study included tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons and recordation of differences required by Rule 17a-13.
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures, as described in the second paragraph of this report, were adequate at December 31, 2007, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

February 22, 2008

END